



BRIEFING: MARCH 8, 2016 BOARD MEETING AGENDA ITEM #8

TO: Chairman Richard and Board Members

FROM: Jeff Morales, Chief Executive Officer

DATE: March 8, 2016

RE: Presentation on the Draft 2016 Business Plan

Background

The California High-Speed Rail Authority (Authority) is required by Public Utilities Code Section 185033 to prepare, publish, adopt, and submit an updated Business Plan to the Legislature on May 1, 2016. Statute also dictates that, at least 60 days prior to submittal to the Legislature, the Authority must publish a draft Business Plan for public review and comment. Staff issued the Draft 2016 Business Plan on February 18, 2016 by posting it on the Authority's website, opening the public comment period. The 60-day comment period runs through April 18 and staff intends to present the plan and the comments received from the public to the Board for approval at the April 21 meeting.

Previous Business Plans

In 2012, the Authority developed its 2012 Business Plan that first laid out the concepts of developing the Phase 1 system in stages and building high-speed rail in concert with other state, regional and local rail investments, as part of a broader statewide rail modernization program. The 2012 Business Plan provided reliable estimates that could be used for decision making and served as the basis for the Legislature's appropriation for the high-speed rail program contained in the Budget Act of 2012 (Senate Bill 1029).

In 2014, the Authority adopted its 2014 Business Plan which built on and updated the 2012 Business Plan, implementing the requirements of SB 1029. The 2014 Business Plan included updated estimates and forecasts that incorporated feedback from outside reviewers and incorporated extensive risk analysis. Also in 2014, after the release of the 2014 Business Plan, the Legislature and Governor reaffirmed their commitment to the program by providing an ongoing funding stream through the state's Greenhouse Gas Reduction Fund.

As demonstrated by the Authority's previous Business Plans, these documents provide a snapshot in time that presents the most current information at the time of adoption. However, by requiring an updated plan every two years, the Legislature always envisioned that these plans

would adapt to changing circumstances and evolve over time. That has been the case with the Authority's previous plans and remains so with the Draft 2016 Business Plan.

Discussion

The Draft 2016 Business Plan summarizes the progress made over the last two years that includes over 100 miles of construction and construction-related activities underway. It also describes the issues the Authority has faced along the way and outlines strategies for managing, mitigating and learning from those issues. Additionally, the document presents updated forecasts and identifies major anticipated milestones for the coming years. The Draft 2016 Business Plan highlights and expands on three major steps forward:

- Substantial progress in environmental clearance including achieving a Record of Decision for the Fresno to Bakersfield section that has allowed the Authority to move forward on Construction Package 2-3 and Construction Package 4.
- Funding from the Greenhouse Gas Reduction Fund (GGRF) [aka Cap and Trade proceeds] that is providing a long-term revenue stream.
- Updated cost estimates that have reduced the cost from \$67.6 to \$64.2 billion (including a scope change of \$2.1 billion in additional investment in the Los Angeles to Anaheim corridor) mainly through lessons learned from the first design-build construction bids; value engineering; a better operational and technical approach to design; and by incorporating contractors' viewpoints.

With a long-term funding stream in place, for the first time the Authority is able to provide the public with a funding-constrained plan that lays out a concrete strategy for sequencing and implementing the Phase 1 system that will ultimately connect the San Francisco Bay Area to the Los Angeles Basin via the Central Valley with high-speed passenger rail service. This sequencing approach maximizes current federal and state dollars and uses them to deliver the earliest operating high-speed rail line that is compliant with Proposition 1A within available funding. In working to deliver the system, the Draft Business Plan lays out the Authority's focus on three main objectives:

- **Get into revenue service as soon as possible:** the Draft Business Plan describes a strategy to initiate high-speed rail passenger service as soon as possible to provide a valuable interim service and begin generating revenues which will attract private-sector participation and generate funding that can be used to continue building out the Phase 1 system.
- **Make concurrent investments:** the Plan outlines an approach to making concurrent system investments that can be linked together over time to initiate high-speed rail service. These strategic investments in California's infrastructure will connect state, regional and local rail systems, and provide immediate mobility, environmental, economic and community benefits.
- **Be ready when funding becomes available:** by expediting environmental work on every mile of the program and securing environmental approvals as soon as possible, the Authority will be in position to construct additional segments as funding becomes available. Additionally, the Authority will partner with other transport providers and advance regional planning and coordination to yield the best and fastest results.

Based on these principles and objectives, the Draft 2016 Business Plan lays out an approach for how the Authority can deliver the entire program:

- The Draft Plan shows that for the first time, the Authority can fund, build and initiate revenue producing high-speed rail operations within existing funding sources.
- This line will connect the Silicon Valley to Central Valley (San Jose-North of Bakersfield) by 2024 with passenger service beginning in 2025 at a cost of \$20.7 billion (including the construction contracts already under way).
- The Authority's intent is to extend this first passenger service line from San Jose north to San Francisco and from the North of Bakersfield location south into downtown Bakersfield, thus offering a one-seat ride between these two destinations. This extended line would significantly enhance ridership and revenues and therefore attract higher value private sector bids for the concession – thus generating more funding for constructing other elements of the Phase I system.
- This extension would require \$2.9 billion of additional funding that the Authority and its partners would seek from the federal government. This would be the first time in over five years that additional funding from the federal government would be sought. At the time of the approval of Proposition 1A, the public and Legislature assumed that high-speed rail funding would be a third state funds, a third private sector and a third federal funds. So far the federal government has only contributed approximately 4% of the program's cost.
- At the same time, the Authority will be making concurrent investments in Southern California in the Burbank-Los Angeles-Anaheim corridor. With local partners, the Authority will pursue funding for a \$4 billion plan to provide early benefits to transit riders and local communities, laying a foundation for high-speed rail in the future:
 - Early investments will focus on one of the highest priority grade separations in the state, at Rosecrans Avenue/Marquardt Avenue, the Southern California Regional Interconnection Project (SCRIP), and improvements at Los Angeles Union Station. These and other investments identified in the Draft 2016 Business Plan will increase capacity and improve safety in this highly-congested travel corridor. They are also critical to improving air quality and reducing greenhouse gas emissions in the region and will be an investment in disadvantaged communities.
 - Projects in this corridor can be funded through a variety of sources including the \$500 million approved in the SoCal MOU, new federal programs from the FAST Act, additional state funds, and funds from regional and local transportation measures
 - Investments in this corridor will include a variety of projects ranging from grade separations and other safety enhancements to additional tracks and eventually electrification
- The Draft Business Plan continues to plan to have the Phase 1 system (San Francisco-Los Angeles/Anaheim) complete by 2028 and operations to begin by 2029.

The Draft Business Plan includes multiple, in-depth sections and technical supporting documents that lay out: the Authority's business model for delivering and operating the system; the planned

implementation strategy described above; updated capital cost estimates; funding and financing; forecasts for ridership/revenue and operating costs; risk-based breakeven analysis; and, the risks that the program faces along with the Authority's strategies for managing and mitigating those risks.

Next Steps

The Draft 2016 Business Plan was released for a 60-day comment period on February 18, 2016. Comments may be made online, via USPS, and at the regularly scheduled board meetings in March and April 2016, which will constitute the required public hearing on the Draft 2016 Business Plan. Comments received during the 60-day period prior to publication become a part of the public record associated with the Business Plan.

The Authority is providing five methods for submitting comments on this draft plan:

1. **Online comment form through the Draft 2016 Business Plan website at:**
https://www.hsr.ca.gov/About/Business_Plans/Draft_2016_Business_Plan_Comments.html
2. **By email at:** 2016businessplancomments@hsr.ca.gov
3. **By U.S. mail to the Authority:**
California High-Speed Rail Authority
Attn: Draft 2016 Business Plan
770 L Street, Suite 620 MS-1, Sacramento, CA 95814
4. **Voice mail comment at:** (916) 384-9516
5. **Provide public comment at** the Authority's Board of Directors Meeting on March 8 and April 12.

All comments received will be provided to and summarized for the Board. After receipt of public comment, staff will present the Business Plan (with any recommended changes) to the Board for approval at the April 21 Board meeting. Upon Board approval, and after incorporating the Board's direction, the Authority will prepare, publish and submit the 2016 Business Plan to the California State Legislature on or before May 1.

Recommendations

This item is informational only; staff does not recommend any Board action at this time.

Attachments

- Draft 2016 Business Plan
(www.hsr.ca.gov/About/Business_Plans/Draft_2016_Business_Plan.html)